July 17, 2003

The Honorable John W. Snow
Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue
Washington D.C. 20510

Dear Secretary Snow:

With the nation's unemployment rate now at its highest point in nine years, we recognize and share the Administration's commitment to doing all we can to create new jobs and preserve our current job base. With that in mind, we are deeply concerned about reports that the Chinese currency, the yuan, is being artificially undervalued, and that this undervaluation may be contributing to the significant job loss the United States has seen in its manufacturing sector. We are writing to urge the Treasury Department to examine this matter.

As you know, in June our nation's unemployment rate increased to 6.4 percent. Many analysts now recognize that our nation's growing unemployment is largely a result of manufacturing job losses. Since March 2001, the manufacturing sector has lost approximately 2.6 million jobs, which accounts for nearly 90 percent of the total U.S. jobs lost, yet manufacturing employment is less than 14 percent of the U.S. workforce. In fact, in June the continuing job losses in manufacturing – 56,000 jobs lost – offset employment increases in other sectors. June was the thirty-fifth straight month of declining jobs in the manufacturing sector, the worst record since World War II. The state of our manufacturing sector is clearly one of the driving factors in our nation's current and prolonged economic difficulties.

Some argue that our manufacturing job loss is the inevitable consequence of increases in productivity. While this clearly is an important factor, it may only partially explain the current situation. Several economists have pointed out that manufacturing jobs are the casualty of our trade deficit, meaning that many manufacturing jobs are moving overseas and, more importantly, that U.S. manufacturers are finding it difficult to compete against lower priced foreign goods and therefore are laying off workers.

For the twelve months ending in May, the United States' overall trade deficit was over $460 billion. The country that most contributed to this deficit was China, where we had a trade deficit of over $110 billion. This figure fits in with the trend set over the past several years. In the last five years, our trade deficit with China has widened from $57 billion in 1998 to $103 billion in 2002, an aggregate trade deficit of over $396 billion over these five years.

While China certainly enjoys some competitive advantages in its cost of labor and regulatory structure, some argue that it also holds another advantage – a deeply undervalued currency. The Chinese yuan has been tightly pegged to the U.S. dollar in a range of 8.276 to 8.280 yuan per dollar since 1994. However, given China's enormous growth since 1994, this fixed level most likely does not reflect its true value. If the yuan were allowed to float freely, like other major currencies, many economists believe it would appreciate substantially against the U.S. dollar. Economists at Goldman Sachs recently estimated that China's currency may be undervalued by 15 percent; other economists put the amount much higher, between 25 percent and 40 percent. If these figures are correct, they amount to an effective 15 percent - 40 percent subsidy on China's exports, a nearly insurmountable advantage against United States producers.

In addition to concern over the yuan being fixed at an artificially low level, we are also concerned over reports of dollar "hoarding." The International Monetary Fund reports that China has acquired massive dollar reserves over the past several years, totaling over $345 billion as of June 2003. China's increase in reserves over the past twelve months exceeded that of any other country in the world. While it may or may not have been China's intent to gain a competitive edge for China's exports, such large scale reserves could lead to instability in the performance of the dollar against other currencies.

As we understand it, World Trade Organization and International Monetary Fund rules prohibit currency manipulation for the purpose of gaining an export advantage. If, as some economists estimate, China is indeed undervaluing its currency, then the United States should consider its alternatives to address this matter. We would also note the Administration's position is that markets, not foreign governments, should determine exchange rates.

We believe this investigation is critical to help address the issue of joblessness in our economy, and may also have longer term consequences. Manufacturing is a foundation of the U.S. economy. It accounts for a large share of our economic output and over half of all U.S. exports. It averages twice the productivity gains of the rest of the private sector, which drives higher wages and an increasing standard of living. Manufacturing also provides good, high paying jobs for the middle class and the first rung on the ladder of opportunity for lower income workers. As *The New York Times* recently noted, the loss of manufacturing employment is hitting minority communities particularly hard.

A stronger yuan would likely be helpful to certain sectors of China's economy by lowering the cost of imports, and it would help Chinese consumers suffering under artificially high prices. If China imported more goods, it could bolster the fragile economies of its neighboring countries, and it would help U.S. exporters. Finally, as we know from our own experience, less government intervention leads to more efficient capital mobility and economic efficiency.

Given the impact on our manufacturing sector and our country's job losses, it is time to push for action on the question of China's overvalued currency. We appreciate the Treasury Department's leadership in this matter.

Sincerely,

Charles Schumer	Elizabeth Dole	Evan Bayh	Lindsey Graham
U.S. Senator	U.S. Senator	U.S. Senator	U.S. Senator